

The Robert Wood Johnson Foundation

**Financial Statements
December 31, 2012 and 2011**

The Robert Wood Johnson Foundation
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December 31, 2012 and 2011

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Independent Auditor's Report

To the trustees of
The Robert Wood Johnson Foundation:

We have audited the accompanying financial statements of The Robert Wood Johnson Foundation, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Robert Wood Johnson Foundation at December 31, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

May 30, 2013

The Robert Wood Johnson Foundation
Statements of Financial Position
December 31, 2012 and 2011

<i>(in thousands)</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 508,349	\$ 216,949
Cash equivalents held as collateral	257,503	258,617
Investments at fair value		
Johnson & Johnson common stock	911,300	852,540
Other equity investments	7,106,125	6,910,501
Fixed income investments	626,945	584,745
Program related investments, net	10,032	11,084
Receivable on pending securities transactions	31,969	58,797
Interest and dividends receivable	1,203	931
Contributions receivable	15,669	10,437
Other assets	52,639	56,277
	<u>\$ 9,521,734</u>	<u>\$ 8,960,878</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 13,022	\$ 6,825
Payable under securities loan agreement	186,775	138,561
Payable on pending securities transactions	53,433	3,537
Unpaid grants	307,468	307,642
Current federal excise tax	1,479	-
Deferred federal excise tax	36,368	31,384
Accrued postretirement benefit obligation	59,779	53,724
	<u>658,324</u>	<u>541,673</u>
Net assets		
Unrestricted	8,847,741	8,408,768
Temporarily restricted	15,669	10,437
	<u>8,863,410</u>	<u>8,419,205</u>
Total net assets	<u>8,863,410</u>	<u>8,419,205</u>
Total liabilities and net assets	<u>\$ 9,521,734</u>	<u>\$ 8,960,878</u>

The accompanying notes are an integral part of these financial statements.

The Robert Wood Johnson Foundation
Statements of Activities
Years Ended December 31, 2012 and 2011

<i>(in thousands)</i>	2012	2011
Unrestricted net assets		
Operating activities		
Investment income		
Dividends	\$ 87,024	\$ 82,472
Interest	108,322	49,889
Realized gains on sale of investments	366,148	314,178
Unrealized appreciation (depreciation) on investments	354,766	(147,245)
Total investment income	<u>916,260</u>	<u>299,294</u>
Investment expenses	62,322	57,994
Tax expense (benefit) on investment income		
Current	10,543	4,292
Deferred	4,984	(160)
Net investment income	<u>838,411</u>	<u>237,168</u>
Contributions	7	1
Total net investment income and other support	<u>838,418</u>	<u>237,169</u>
Program costs and administrative expenses		
Grants, net	289,531	326,708
Provision for possible losses on program-related investments	1,744	-
Direct charitable activities	49,728	43,701
Program management	34,780	29,629
General management	21,900	19,817
Total program costs and administrative expenses	<u>397,683</u>	<u>419,855</u>
Change in unrestricted net assets from operating activities	440,735	(182,686)
Nonoperating activities		
Other changes in postretirement obligation	(1,763)	(5,265)
Change in unrestricted net assets	438,972	(187,951)
Temporarily restricted net assets		
Change in value of charitable remainder trust	5,233	783
Change in total net assets	444,205	(187,168)
Net assets		
Beginning of year	<u>8,419,205</u>	<u>8,606,373</u>
End of year	<u>\$ 8,863,410</u>	<u>\$ 8,419,205</u>

The accompanying notes are an integral part of these financial statements.

The Robert Wood Johnson Foundation
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

<i>(in thousands)</i>	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 444,205	\$ (187,168)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	6,058	5,914
Deferred federal excise tax	4,984	(160)
Provision for possible losses on program related investments	1,744	-
Loans disbursed for program related investments	(4,159)	(94)
Repayments of program-related investments	3,467	828
Net realized and unrealized gain on investments	(720,914)	(166,933)
Change in operating assets and liabilities		
Cash equivalents held as collateral	1,114	(86,008)
Interest and dividends receivable	(272)	3,205
Contributions receivable	(5,232)	(784)
Other assets	3,447	(679)
Accounts payable and accrued expenses	6,197	560
Payable under securities loan agreement	48,214	299
Unpaid grants	(174)	(56,567)
Current federal excise tax	1,479	-
Accrued postretirement benefit obligation	6,055	8,253
Net cash used in operating activities	<u>(203,787)</u>	<u>(479,334)</u>
Cash flows from investing activities		
Proceeds from sale of investments	2,000,338	2,192,661
Cost of investments purchased	(1,499,284)	(1,845,037)
Acquisition of property and equipment	<u>(5,867)</u>	<u>(5,811)</u>
Net cash provided by investing activities	<u>495,187</u>	<u>341,813</u>
Net increase (decrease) in cash and cash equivalents	291,400	(137,521)
Cash and cash equivalents		
Beginning of year	<u>216,949</u>	<u>354,470</u>
End of year	<u>\$ 508,349</u>	<u>\$ 216,949</u>
Supplemental data		
Federal and state taxes paid	\$ 5,547	\$ 4,904
Interest paid during the year	48	60

The accompanying notes are an integral part of these financial statements.

The Robert Wood Johnson Foundation

Notes to Financial Statements

December 31, 2012 and 2011

1. Organization

The Foundation is an organization exempt from Federal income taxation under Section 501(c)(3) and is a private foundation as described in Section 509(a) of the Internal Revenue Code. The Foundation's mission is to improve the health and healthcare of all Americans. The Foundation focuses on pressing health and health care issues, and supports nonpartisan programs to:

- Improve the quality of health care in the U.S. by measuring and reporting on quality, reducing disparities, and engaging consumers to make informed choices about their care.
- Promote new approaches to meet the health needs of low-income communities.
- Help reverse the epidemic of childhood obesity, particularly among children and families at greatest risk.
- Advance public awareness of health insurance coverage issues and the effects of health reform.
- Help revitalize public health systems, services and policies that protect, preserve and promote health.
- Create and promote innovations that may result in solutions at the cutting edge of health and health care.
- Foster leadership and skills development in the health and health care workforce.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Net Assets Accounting—The Foundation reports information regarding its financial position and activities according to the following two classes of net assets:

- Unrestricted net assets are not subject to donor-imposed stipulations or the restrictions have expired.
- Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation or that expire by the passage of time. Temporarily restricted net assets at December 31, 2012 and 2011 were solely related to a charitable remainder trust.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and short term, liquid investments with an original maturity of three months or less, or amounts invested in registered money market funds.

The Robert Wood Johnson Foundation

Notes to Financial Statements

December 31, 2012 and 2011

Program Related Investments

The Foundation invests in projects that advance philanthropic purposes. These program related investments are generally below-market-rate loans and linked deposits. These loans and deposits are treated as qualifying distributions for tax reporting purposes. Loans are monitored to determine net realizable value based on an evaluation of recoverability that utilizes experience and may reflect periodic adjustments to terms as deemed appropriate. Program related investments are recorded when disbursed.

Investments

Purchases and sales of securities are recorded on a trade date basis. Realized gains and losses on investments in securities are calculated based on the first-in, first-out method, and are reflected in the Statements of Activities. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.

Investments are recorded at estimated fair value in accordance with GAAP, which established a framework used to measure fair value, and expanded disclosures about fair value measurements. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price). The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ASC 820 favors the use of market-based information over entity-specific information. The standard prescribes a three-level hierarchy for fair value measurements based on the transparency of information, such as the pricing source, used in the valuation of an asset as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

- Level 1 Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. Investments in this category include cash equivalents and publicly traded equities, publicly traded commingled funds, and publicly traded partnerships.
- Level 2 Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. Fair value is determined through the use of models or other valuation methodologies using publicly available inputs. Investments in this category include commingled funds that trade in less active markets, bond instruments, derivatives, mortgage backed securities and hedge funds reporting Net Asset Value ("NAV") and redeemable in the near term (90 days or less).
- Level 3 Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. Investments in this category include privately held investments, hedge funds reporting NAV but which are not redeemable in the near term, and comingled funds whose inputs for valuation are not observable in the marketplace.

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NAV is used as a practical expedient for commingled funds categorized in Level 2 and Level 3, privately held investments, and securities held in partnership format for which a readily determinable fair value is not available, unless the Foundation believes such NAV calculation is not measured in accordance with GAAP. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and that difference could be material to the change in net assets of the Foundation.

On a monthly basis, the chief investment officer and investment staff, as well as other senior executive officers, receive an investment performance and valuation report. The valuation process for investment funds (including Level 3 measurements) are performed on a monthly basis by the investment managers and are subject to review and oversight by the Foundation. In connection with this process, the Foundation reviews the details of the reported information obtained from the investment managers. When appropriate, valuations are adjusted for various factors and such factors are generally based on available market evidence. Consistent with the measurement principles of the Foundation's fair value policy, the Foundation, in consultation with the investment managers, may make adjustments to the NAV of various investment funds to reflect the best estimate of fair value.

The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Foundation's perceived risk of that instrument. See footnote 6 for a summary of assets by investment category and hierarchy level.

Derivative Instruments Directly Owned

The Foundation transacts in a variety of derivative instruments, including futures, options and forward contracts, primarily for trading purposes. Each instrument's primary risk exposure is related to interest rate, foreign exchange, and equity or commodity risk. The fair value of these derivative instruments, held in the Foundation's separately managed accounts, is included in the Statements of Financial Position. Their changes in fair value are reflected as realized gains (losses) or unrealized gains (losses) on investments within the Statements of Activities. Some investment managers retained by the Foundation have been authorized to use certain financial derivative instruments in a manner set forth by either the Foundation's written investment policy, or through specific manager guidelines. Financial derivative instruments may be used for the following purposes: (1) currency forward contracts and options to hedge nondollar exposure in foreign investments, or to take positions in managed currency portfolios; (2) futures and options contracts to manage market exposures in managed portfolios.

Premiums received with respect to open options contracts at December 31, 2012 and 2011 were \$282,025 and \$0, respectively. The total value of cash equivalents held as collateral pledged with respect to options and futures contracts at December 31, 2012 and 2011 was \$9,056,277 and \$26,988,828, respectively. The value of cash equivalents held as collateral at brokers for variation margin at December 31, 2012 and 2011 was \$60,670,133 and \$120,595,683, respectively.

In the opinion of the Foundation's management, the use of financial derivative instruments in its investment program is appropriate and customary for the investment strategies employed, reducing certain investment risks. The instruments themselves, however, do involve investment and counterparty risk in amounts greater than what are reflected in the Foundation's financial statements. Management does not anticipate that losses, if any, from such instruments would materially affect the financial position of the Foundation.

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Cash Equivalents Held as Collateral

Cash equivalents held as collateral represent short term, liquid investments with an original maturity of three months or less, or amounts invested in registered money market funds which are held as collateral for cash received pursuant to securities lending agreements, or cash collateral held by broker for variation margin.

Payable Under Security Loan Agreement

Payable under security loan agreement represents the value of collateral received to cover the fair market value of securities on loan pursuant to securities lending agreements.

Receivable on Pending Securities Transactions

Receivable for securities transactions include amounts due from the settlement of securities transactions for securities maintained with the custodian.

Payable on Pending Securities Transactions

Payable for securities transactions include amounts due for the settlement of securities transactions for securities maintained with the custodian.

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of financial instruments, and their related income and expenses, are translated at the rate of exchange on the respective date of such transactions. Realized and unrealized gains and losses resulting from foreign currency changes are reflected in the Statements of Activities as a component of realized/unrealized gain and realized/unrealized depreciation on the respective investments.

Property and Equipment

Property and equipment are capitalized and carried at cost. Maintenance and repairs are charged to expense as incurred. Depreciation of approximately \$6.1 million and \$5.9 million in 2012 and 2011, respectively, was calculated using the straight-line method over the estimated useful lives of the depreciable assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Foundation makes significant estimates regarding the value of alternative investments, discounts for contributions receivable and unpaid grants, allowance for possible losses on program related investments, useful lives of property and equipment, and assumptions used for employee benefit plans. Actual results could differ from these estimates.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 financial statement presentation.

The Robert Wood Johnson Foundation

Notes to Financial Statements

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3. Recent Accounting Pronouncements

In December 2011, FASB issued new guidance on offsetting assets and liabilities, which requires enhanced disclosure about certain financial and derivative instruments presented on the balance sheet on a net basis, and similar related arrangements. The disclosure will provide an understanding of the effect or potential effect of these arrangements on the financial statements. The amended guidance is effective for annual periods beginning on or after January 1, 2013.

Since the guidance is primarily limited to enhanced disclosures, adoption of this standard is not expected to have a material impact on the Foundation's financial statements.

4. Taxes

The Internal Revenue Service requires the Foundation to distribute within 12 months of the end of each year approximately 5% of the average fair value of its assets not used in carrying out the charitable purpose of the Foundation. The distribution requirement for 2012 and 2011 has been met.

The Internal Revenue Code imposes an excise tax on private foundations equal to 2% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax may be reduced to 1% for foundations that meet certain distribution requirements.

The provision for federal excise tax consists of a current provision on realized net investment income and a deferred provision on net unrealized appreciation of investments. The current provision for 2012 and 2011 on net investment income at 2% and 1%, respectively, was approximately \$10.0 million and \$3.9 million, respectively. For 2012 and 2011, the change in unrealized appreciation reflected on the Statements of Activities includes a provision for deferred taxes based on net unrealized appreciation of investments at 2%. The increase (decrease) in unrealized appreciation in 2012 and in 2011 resulted in a change of the deferred federal excise tax liability of approximately \$4,984 million and (\$160 million), respectively.

Deferred federal excise taxes are the result of unrealized appreciation on investments being reported for financial statement purposes in different periods than for tax purposes.

In 2012 and 2011, the Foundation was liable for federal and state unrelated business income tax in connection with its limited partnership interests. The Foundation paid or credited approximately \$547,000 and \$404,000 for this federal and state unrelated business income tax for 2012 and 2011, respectively.

5. Contributions Receivable

Contributions receivable at December 31, 2012 and 2011 of approximately \$15.7 million and \$10.4 million, respectively, represent the present value of the estimated future benefit to be received as a beneficiary in a charitable remainder trust. The interest rates used to discount the trust receivable to present value range from 1.8% to 6.5% at December 31, 2012 and 2011, respectively.

The Robert Wood Johnson Foundation
Notes to Financial Statements
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6. Investments

At December 31, 2012 and 2011, the cost and fair values of the investments are summarized as follows:

<i>(in thousands)</i>	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Johnson & Johnson common stock 13,000,000 shares in 2012 and 2011	\$ 11,063	\$ 911,300	\$ 11,063	\$ 852,540
Other equity investments				
Domestic equities	2,188,187	2,400,300	2,101,390	2,265,637
Global equities	1,324,951	1,536,663	1,341,712	1,366,869
Alternative investments-limited partnerships	2,738,343	3,169,162	2,880,212	3,277,995
Fixed income investments	553,759	626,945	529,318	584,745
	<u>\$ 6,816,303</u>	<u>\$ 8,644,370</u>	<u>\$ 6,863,695</u>	<u>\$ 8,347,786</u>

Included in Domestic equities at December 31, 2012 and 2011 were approximately \$182 million and \$134 million, respectively, of securities on loan pursuant to securities lending agreements. Cash collateral received for securities on loan was \$186.8 million and \$139.0 million at December 31, 2012 and 2011, respectively. Original collateral received on Domestic securities lent was at least 102% of market value. All cash collateral received is invested in approved money market and short term funds.

Pursuant to the limited partnership agreements of investee funds, as of December 31, 2012 and 2011, the Foundation had commitments of approximately \$1,278 million and \$1,340 million, respectively, which are expected to be funded over the next three to five years.

The Foundation purchases and sells forward currency contracts whereby the Foundation agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate. At December 31, 2012 and 2011, the Foundation had open forward foreign currency contracts at fair value totaling approximately \$6.4 million and (\$4.7 million), respectively. Such contracts involve, to varying degrees, the possible inability of counterparties to meet the terms of their contracts. Changes in the value of forward foreign currency contracts are recognized as unrealized gains and losses until such contracts are closed.

Financial instruments such as those described above involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded on the balance sheet. For the Foundation, market risk represents the potential loss due to the decrease in the value of financial instruments; credit risk represents the potential loss due to possible nonperformance of contract terms by obligors and counterparties.

Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the financial position and operations of the Foundation.

The Robert Wood Johnson Foundation
Notes to Financial Statements
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The Foundation invests in a variety of fixed income securities and contractual instruments, which by their nature are interest rate sensitive. Changes in interest rates will affect the value of such securities and contractual instruments.

The following table summarizes the financial assets reported on the Foundation's Statements of Financial Position by caption and by level within the fair value hierarchy as of December 31, 2012:

<i>(in thousands)</i>	Unadjusted Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash equivalents	\$ 19,006	\$ 489,343	\$ -	\$ 508,349
Cash equivalents held as collateral	63,678	193,825	-	257,503
Commingled funds - equity oriented	-	775,292	193,741	969,033
Commingled funds - fixed income	-	219,693	258,974	478,667
Commingled funds - hedge funds	-	903,082	674,060	1,577,142
Commingled funds - public equity mid cap	-	-	8,352	8,352
Derivatives - credit default swap	-	(200)	-	(200)
Derivatives - equity index swap	-	1,318	-	1,318
Derivatives - forward exchange	-	6,411	-	6,411
Derivatives - futures	-	655	-	655
Derivatives - interest rate swaps	-	6,527	-	6,527
Derivatives - options	-	4,872	-	4,872
Drawdown investments - below investment grade credit	-	-	748,792	748,792
Drawdown investments - private equity	-	-	2,466,863	2,466,863
Drawdown investments - real assets	-	-	1,000,313	1,000,313
Johnson & Johnson common stock	911,300	-	-	911,300
Other bonds - fixed income	-	51,590	-	51,590
Other bonds - mortgage backed fixed income	-	50,875	-	50,875
Other funds - fixed income	-	-	19,932	19,932
Preferred security - credit	-	-	23,223 **	23,223
Public equity - mid cap	145,520	-	-	145,520
Public equity - small cap	11,706	108	-	11,814
Publicly traded partnerships	55,291	-	-	55,291
US government and agency bonds	112,491	-	-	112,491
Grand total	<u>\$ 1,318,992</u>	<u>\$ 2,703,391</u>	<u>\$ 5,394,250</u>	<u>\$ 9,416,633</u>

* These financial assets are reported as either a receivable on pending securities transactions or a payable on pending securities transactions on the Statement of Financial Position.

** This financial asset is measured and valued based on current estimates of future cash flows, performance, and return requirements of the collateralized debt and loan obligation markets. The Foundation utilizes a discounted cash flow model to estimate fair value. The significant unobservable inputs to this model include the default, recovery, pre-payment and discount rates of 1.5%, 65%, 25% and 12% respectively.

The Robert Wood Johnson Foundation
Notes to Financial Statements
December 31, 2012 and 2011

The following table includes a roll forward of amounts for which the Foundation has classified within Level 3:

(in thousands)

Balance at December 31, 2011	\$ 5,434,992
Transfers out*	(109,647)
Transfers in*	2,757
Purchases	859,367
Sales	(1,088,802)
Realized gain/loss	387,778
Change in unrealized gain/loss	<u>(92,195)</u>
Balance at December 31, 2012	<u>\$ 5,394,250</u>

* It is the Foundation's policy to recognize transfers between levels as of the end of the year. All transfers in and out of Level 3 are due to change in liquidity terms of the underlying commingled funds. Commingled funds with a redemption notice period of greater than 90 days are classified as Level 3 assets.

The amount included in the Statements of Activities for the period which is attributable to the change in unrealized gains related to Level 3 assets still held at December 31, 2012 was approximately \$29.8 million. There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2012.

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The following table summarizes the financial assets reported on the Foundation's Statements of Financial Position by caption and by level within the fair value hierarchy as of December 31, 2011:

<i>(in thousands)</i>	Unadjusted Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash equivalents	\$ 10,607	\$ 206,342	\$ -	\$ 216,949
Cash equivalents held as collateral	94,140	164,477	-	258,617
Commingled funds - equity oriented	-	793,870	182,249	976,119
Commingled funds - fixed income	-	340,293	247,039	587,332
Commingled funds - hedge funds	-	615,446	718,548	1,333,994
Commingled funds - public equity emerging markets	19,752	9,232	3,046	32,030
Commingled funds - public equity mid cap	-	-	7,275	7,275
Corporate bonds - public equity emerging markets	-	527	-	527
Derivatives - future equity	-	(8,995)	-	(8,995)
Derivatives - option equity	-	(4,752)	-	(4,752)
Derivatives - equity index swap	-	(8,420)	-	(8,420)
Derivatives - forward exchange	-	(4,726)	-	(4,726)
Drawdown investments - below investment grade credit	-	-	833,438	833,438
Drawdown investments - private equity	-	-	2,458,143	2,458,143
Drawdown investments - real assets	-	-	943,192	943,192
International commingled funds	17,111	1,584	-	18,695
Johnson & Johnson common stock	852,540	-	-	852,540
Other bonds - fixed income	-	146,223	22,105	168,328
Other bonds - mortgage backed fixed income	-	549	-	549
Preferred security - credit	-	-	19,957	19,957
Public equity - mid cap	86,848	-	-	86,848
Public equity - small cap	997	-	-	997
Publicly traded partnerships	49,193	-	-	49,193
Registered mutual funds	775	-	-	775
US government and agency bonds	-	21	-	21
Grand total	<u>\$ 1,131,963</u>	<u>\$ 2,251,671</u>	<u>\$ 5,434,992</u>	<u>\$ 8,818,626</u>

* These financial assets are reported as either a receivable on pending securities transactions or a payable on pending securities transactions on the Statement of Financial Position.

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The following table includes a roll forward of amounts for which the Foundation has classified within Level 3:

(in thousands)

Balance at December 31, 2010	\$ 5,267,000
Transfers out [*]	(145,758)
Transfers in [*]	214,912
Purchases	1,205,725
Sales	(1,449,451)
Realized gain/loss	376,667
Change in unrealized gain/loss	<u>(34,103)</u>
Balance at December 31, 2011	<u>\$ 5,434,992</u>

^{*} It is the Foundation's policy to recognize transfers between levels as of the end of the year. All transfers in and out of Level 3 are due to change in liquidity terms of the underlying commingled funds. Commingled funds with a redemption notice period of greater than 90 days are classified as Level 3 assets.

The amount included in the Statements of Activities for the period which is attributable to the change in unrealized gains related to Level 3 assets still held at December 31, 2011 was approximately \$45 million.

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The Foundation uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement policies of an investment company or have the attributes of an investment company. The following table lists Foundation investments in other investment companies by major category as of December 31, 2012:

<u>Category of Investment</u>	<u>Investment Strategy</u>	<u>Adjusted Fair Value Determined Using NAV (in 000's)</u>	<u>Number of Funds</u>	<u>Remaining Life</u>	<u>Unfunded Commitments (in 000's)</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions and Terms</u>	<u>Redemption Restrictions and Terms in Place at Year End</u>
Drawdown Investments	Private Equity	\$ 2,466,863	186	1 to 10 years	\$ 531,799	n/a	n/a	n/a
	Real Assets	1,000,313	53	1 to 10 years	371,267	n/a	n/a	n/a
	Grade Credit	748,792	55	1 to 5 years	374,653	n/a	n/a	n/a
Commingled Funds	Hedge Funds	1,577,142	32	n/a	n/a	Monthly, quarterly and annual redemptions with 3 -180 day written notice.	Two funds (\$152 million aggregate value) have remaining lockup periods of 1 - 2 years.	Two funds have gates on redemption. One has a 25% redemption cap and the other has a 10% redemption cap. Five funds are in liquidation and nine funds have less than 1% of their total fund size invested in side pockets which are illiquid.
	Equity Oriented	969,033	19	n/a	n/a	Monthly, quarterly and annual redemptions, with 6 - 90 day written notice.	Three funds have remaining lockup periods of 1 - 2 years.	Six funds have investments in side pockets and those investments are illiquid.
	Fixed Income	478,667	13	n/a	n/a	Quarterly and annual redemptions, with 90 - 120 day written notice.	Four funds (\$84 million aggregate value) have no redemption during investment term; one fund (\$45 million) is winding down.	Two funds have indefinite gates on redemptions and two funds are in liquidation. Three funds have side pockets.
		<u>\$ 7,240,810</u>			<u>\$ 1,277,719</u>			

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The Foundation uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement policies of an investment company or have the attributes of an investment company. The following table lists Foundation investments in other investment companies by major category as of December 31, 2011:

<u>Category of Investment</u>	<u>Investment Strategy</u>	<u>Adjusted Fair Value Determined Using NAV (in 000's)</u>	<u>Number of Funds</u>	<u>Remaining Life</u>	<u>Unfunded Commitments (in 000's)</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions and Terms</u>	<u>Redemption Restrictions and Terms in Place at Year End</u>
Drawdown Investments	Private Equity	\$ 2,458,143	187	1 to 10 years	\$ 735,312	n/a	n/a	n/a
	Real Assets	943,192	46	2 to 10 years	337,824	n/a	n/a	n/a
	Investment	833,438	52	1 to 5 years	267,163	n/a	n/a	n/a
Commingled Funds	Hedge Funds	1,333,994	29	n/a	n/a	Monthly, quarterly and annual redemptions with 3 -180 day written notice.	Two funds (\$152 million aggregate value) have remaining lockup periods of 1 - 2 years.	Two funds have gates on redemption. One has a 25% redemption cap and the other has a 10% redemption cap. Five funds are in liquidation and thirteen funds have less than 1% of their total fund size invested in side pockets, which are illiquid.
	Equity Oriented	976,119	21	n/a	n/a	Monthly, quarterly and annual redemptions, with 6 - 90 day written notice.	Three funds have remaining lockup periods of 1 - 2 years.	Six funds have investments in side pockets and those investments are illiquid.
	Fixed Income	587,332	16	n/a	n/a	Monthly, quarterly, semi-annual and annual redemptions, with 14 - 120 day written notice.	Four funds (\$54 million aggregate value) have no redemption during investment term; one fund (\$8 million) is winding down.	Two funds have indefinite gates on redemptions and two funds are in liquidation. Five funds have side pockets.
		<u>\$ 7,132,218</u>			<u>\$ 1,340,299</u>			

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The following table summarizes the unrealized appreciation and unrealized depreciation reported on derivative financial instruments reported on the Statements of Financial Position at December 31, 2012:

	<u>Gross Derivative Assets</u>		<u>Gross Derivative Liabilities</u>	
	<u>Notional/ Contractual Amount</u>	<u>Fair Market Value/ Unrealized Appreciation</u>	<u>Notional/ Contractual Amount</u>	<u>Fair Market Value/ Unrealized Depreciation</u>
<i>(in thousands)</i>				
Credit default swap contracts	\$ 9,376	\$ 892	\$ (30,649)	\$ (1,092)
Equity index swap contracts	531,167	1,319	(63,561)	(1)
Future contracts	2,121	12,366	(24,067)	(11,711)
Interest rate swap contracts	360,994	8,440	(131,396)	(1,913)
Option contracts	12,722	5,037	(126,800)	(165)
Forward exchange contracts	945,519	14,972	(1,020,915)	(8,561)
Total derivative designated as trading instruments on the Statements of Financial Position	<u>\$ 1,861,899</u>	<u>\$ 43,026</u>	<u>\$ (1,397,388)</u>	<u>\$ (23,443)</u>

Notional amounts denominated in foreign currency have been converted into a U.S. dollar equivalent using the spot foreign currency exchange rate at December 31, 2012.

The following table summarizes the gains and losses reported in the Statements of Activities on derivative financial instruments designated as trading instruments for the year ended December 31, 2012:

	Realized and Unrealized Gain/Loss
Credit default swap contracts	\$ 152
Equity index swap contracts	(28,159)
Future contracts	(57,551)
Interest rate swap contracts	9,935
Option contracts	7,501
Forward exchange contracts	18,111
Total derivative designated as trading instruments on the Statements of Activities	<u>\$ (50,011)</u>

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The following table summarizes the unrealized appreciation and unrealized depreciation reported on derivative financial instruments reported on the Statements of Financial Position at December 31, 2011:

	Gross Derivative Assets		Gross Derivative Liabilities	
	Notional/ Contractual Amount	Fair Market Value/ Unrealized Appreciation	Notional/ Contractual Amount	Fair Market Value/ Unrealized Depreciation
<i>(in thousands)</i>				
Equity index swap contracts	\$ 213	\$ 296,270	\$ (192)	\$ (304,690)
Option equity contracts	4	6,157	(4)	(10,909)
Future equity contracts	11,043	4,925	(690)	(13,921)
Forward exchange contracts	687,255	6,824	(818,024)	(11,550)
Total derivative designated as trading instruments on the Statements of Financial Position	\$ 698,515	\$ 314,176	\$ (818,910)	\$ (341,070)

The following table summarizes the gains and losses reported in Statements of Activities on derivative financial instruments for the year ended December 31, 2011:

	Realized and Unrealized Gain/Loss
Equity index swap contracts	\$ (30,524)
Future index option contracts	(27,458)
Future equity contracts	(34,231)
Forward exchange contracts	(39,773)
Total derivative designated as trading instruments on the Statements of Activities	\$ (131,986)

7. Program Related Investments

Program related investments in the statements of financial position represent below-market-rate loans and linked deposits with outstanding principal totaling approximately \$11,776,000 and \$11,084,000 as of December 31, 2012 and 2011, respectively. Interest rates range from 1% to 2%, and are repayable over 1 to 10 years. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. As of December 31, 2012 a provision of \$1,744,000 for possible losses on program related investments has been accrued.

As part of its program related investment activities, the Foundation has entered into a guarantee arrangement with one grantee. The total outstanding guarantee was \$3.5 million at December 31, 2012 and 2011. The Foundation records a liability if it is likely that this guarantee will be called and the expected amount to be called can be estimated. No liability has been recorded at December 31, 2012 and 2011.

In addition, the Foundation has made commitments to provide low interest financing to not-for-profit institutions in furtherance of joint programmatic areas of interest. The outstanding amount of these commitments was \$22.4 and \$22.9 million at December 31, 2012 and 2011, respectively.

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8. Property and Equipment

At December 31, 2012 and 2011, property and equipment, a component of Other assets, consisted of:

<i>(in thousands)</i>	Depreciable Life in Yrs.	2012	2011
Land and land improvements	15	\$ 2,892	\$ 2,892
Buildings	40	51,645	51,566
Furniture and equipment	3-5	<u>20,279</u>	<u>20,734</u>
		74,816	75,192
Less: Accumulated depreciation and amortization		<u>(26,556)</u>	<u>(26,741)</u>
Property and equipment, net		<u>\$ 48,260</u>	<u>\$ 48,451</u>

9. Unpaid Grants

At December 31, 2012, the unpaid grant liability is expected to be paid in future years as follows:

<i>(in thousands)</i>	
2013	\$ 193,736
2014	88,990
2015	30,058
2016	8,589
2017 and thereafter	<u>411</u>
	321,784
Less: Discounted to present value	<u>(14,316)</u>
	<u>\$ 307,468</u>

For grants issued after January 1, 2009, the unpaid portion of future grant payments is recorded at fair value and is considered Level 2 FASB Accounting Standards Codifications ASC 820. For grants issued prior to December 31, 2008 the liability is recorded at the present value of estimated future cash flows. The Foundation discounted the amount of unpaid grant liability by applying interest rate factors ranging from 0.7% to 5.5% and an estimated cancellation rate of approximately 3.3%. The risk-free rate of return is not materially different from the interest rate factors used. At December 31, 2012, the unpaid grant liability was discounted to present value by approximately \$14 million.

A significant component of the Foundation's program activity is accomplished through Program Authorizations ("Authorizations") and other appropriations. An Authorization is an approval of a designated amount to accomplish a specific programming objective through grant making and other program related activities. At December 31, 2012 and December 31, 2011, the gross unpaid grant liability and the remaining balance under approved authorizations and other appropriations were approximately \$680 million and \$624 million, respectively.

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10. Benefit Plans

Retirement Plans

Substantially all employees of the Foundation are covered by two defined contribution retirement plans which provide for retirement benefits through a combination of the purchase of individually-owned annuities and cash payout. The Foundation's policy is to fund costs incurred. Pension expense amounted to approximately \$4.4 million and \$4.1 million for 2012 and 2011, respectively, under these plans.

Postretirement Benefits

The Foundation provides postretirement medical and dental benefits to all employees who meet eligibility requirements. The benefit obligation for 2012 and 2011 is summarized as follows:

<i>(in thousands)</i>	2012	2011
Benefit obligation at December 31	\$ (59,779)	\$ (53,724)
Fair value of plan assets at December 31	<u>-</u>	<u>-</u>
Funded status and accrued benefit obligation recognized in the statements of financial position	<u>\$ (59,779)</u>	<u>\$ (53,724)</u>

Amounts recognized in net assets as of December 31, 2012 and 2011 are as follows:

	2012	2011
Prior service credit	\$ 1,406	\$ 1,713
Accumulated (loss) gain	<u>(23,658)</u>	<u>(22,203)</u>
Change in net assets	<u>\$ (22,252)</u>	<u>\$ (20,490)</u>

Changes in unrestricted net assets as a result of actuarial gains/losses and amounts amortized for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
(Gains) or losses	\$ 2,629	\$ 5,588
Amortization of (gains) or losses	(1,172)	(639)
Amortization of prior service costs	<u>306</u>	<u>316</u>
Total change in unrestricted net assets	<u>\$ 1,763</u>	<u>\$ 5,265</u>

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Information about assumptions as of December 31, 2012 and 2011 is as follows:

	2012	2011
Weighted-average assumptions		
Discount rate (benefit obligations)	4.3%	4.5%
Discount rate (net periodic costs)	4.5%	5.5%
Expected return on plan assets	N/A	N/A
Health care cost trend rate assumptions		
Trend rate for the next year	7.5%	8.0%
Ultimate trend rate	5.0%	5.0%
Year ultimate trend rate is reached	2023	2023

Benefit information for the years ended December 31, 2012 and 2011, is summarized as follows:

	2012	2011
Benefit cost	<u>\$ 5,889</u>	<u>\$ 4,580</u>
Employer contributions	\$ 1,597	\$ 1,592
Plan participants' contributions	<u>57</u>	<u>81</u>
Total benefits paid	<u>\$ 1,654</u>	<u>\$ 1,673</u>

The estimated future benefit payments are as follows:

2013	\$ 1,523
2014	1,576
2015	1,708
2016	1,834
2017	2,067
2018-2022	12,515

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides a prescription drug benefit under Medicare Part D as well as a Federal subsidy to employers whose plans provide an "actuarial equivalent" prescription drug benefit. Although the Foundation's postretirement prescription drug benefits has been determined to qualify for this subsidy, the Plan does not intend to apply for the subsidy and so the actuarial valuation does not assume any current or future subsidy.

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11. Capital Lease Obligations

The Foundation has several noncancelable capital leases relating to computer hardware and office equipment. The future minimum rental payments required under these leases are as follows:

(in thousands)

2013	\$	279
2014		86
2015		73
2016 and thereafter		<u>40</u>
		478
Less: Amounts representing interest		<u>(115)</u>
	\$	<u>363</u>

12. Commitments and Contingencies

In June, 2012, the Foundation entered into an agreement with J.P. Morgan Chase Bank, N.A. for \$75 million and another separate \$75 million committed lines of credit, which expire on June 30, 2013 and June 30, 2014, respectively. The lines of credit are available for programmatic activities and administrative expenses. No amounts drawn on these lines of credit are outstanding at December 31, 2012 and through May 30, 2013.

13. Subsequent Events

Management has performed an evaluation on subsequent events through May 30, 2013, the date the financial statements were available to be issued. Management has determined that there are no events which warrant disclosure in the Foundation's financial statements through May 30, 2013.